

**THE OFFICE OF REGULATORY STAFF  
SURREBUTTAL TESTIMONY & EXHIBITS  
OF**

**DR. DOUGLAS H. CARLISLE**

**JANUARY 12, 2018**



**DOCKET NO. 2017-228-S**

**Application of Palmetto Utilities, Incorporated for  
Adjustment of Rates and Charges for Customers in the  
Palmetto Utilities and Palmetto of Richland County Service  
Areas**

**SURREBUTTAL TESTIMONY AND EXHIBITS OF**  
**DR. DOUGLAS H. CARLISLE**  
**ON BEHALF OF**  
**THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF**  
**DOCKET NO. 2017-228-S**  
**IN RE: APPLICATION OF PALMETTO UTILITIES, INCORPORATED FOR**  
**ADJUSTMENT OF RATES AND CHARGES FOR CUSTOMERS IN THE**  
**PALMETTO UTILITIES AND PALMETTO OF RICHLAND COUNTY**  
**SERVICE AREAS**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

**A.** My name is Douglas H. Carlisle. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as an Economist at the South Carolina Office of Regulatory Staff (“ORS”).

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

**A.** I received a Bachelor of Arts from Brown University, a Master’s Degree in Public Administration and a Ph.D. in Government and International Relations from the University of Virginia. I am a Certified Rate of Return Analyst and a board member of the Society of Utility Regulatory Financial Analysts. I have previously testified before this Commission concerning return on equity (“ROE”).

**Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

**A.** The purpose of my surrebuttal testimony is to explain how I obtained the Capital Structure and Weighted Average Cost of Debt (“WACD”) for Palmetto Utilities, Inc.

1 (“PUI” or “the Company”). I provided the Capital Structure and WACD, which serve as a  
2 component in the calculation of interest synchronization to the ORS Audit Department and  
3 which reflect the unique situation of PUI.

4 **Q. DESCRIBE HOW YOU OBTAINED THE CAPITAL STRUCTURE AND WACD**  
5 **FOR THE COMPANY?**

6 **A.** The information regarding PUI’s Capital Structure and WACD came directly from  
7 the Company in response to ORS Utility Rate Request #1 on September 29, 2017, with  
8 little modification. (See Surrebuttal Exhibit DHC-2) I used the remaining balances on  
9 Long-Term Debt as provided by the Company, but I subtracted the Short-Term Debt  
10 component because Short-Term Debt has not been recognized by the Public Service  
11 Commission of South Carolina for purposes of determining Capital Structure since the  
12 inception of ORS.

13 When I subtracted Short-Term Debt, the resulting Equity-to-Capital ratio rose to  
14 55.77%. (See Surrebuttal Exhibit DHC-1). Although Equity, in isolation, is less risky than  
15 Debt, it does carry some risk and both forms of capital are riskier above a 55% proportion  
16 in Capital Structure. I accordingly reduced the Equity ratio to 55% and updated the equity  
17 values to reflect this adjustment, which resulted in a Debt ratio of 45%. For the WACD, I  
18 used the debt rate of 4.84% as calculated and supplied by the Company in response to ORS  
19 Utility Rates Request #1 on September 29, 2017. (See Surrebuttal Exhibit DHC-1).

20 **Q. ARE TOTAL ASSETS OR EARNINGS BEFORE INTEREST, TAXES,**  
21 **DEPRECIATION AND AMORTIZATION (“EBITDA”) COMPONENTS OF THE**  
22 **CALCULATION OF CAPITAL STRUCTURE AND WACD?**

23 **A.** No.

1    **Q.       DOES THIS CONCLUDE YOUR TESTIMONY?**

2    **A.** Yes, it does.

## CAPITAL STRUCTURE AND WEIGHTED AVERAGE COST OF DEBT FOR PUI, ORS CALCULATION

<u>Line #</u>	<u>AMOUNT</u>	<u>COMPONENT OF CAPITAL</u>
1	\$140,060,959.90	Total Capital using only Outstanding Debt
2	\$63,704,024.09	Total Debt
3	\$3,080,689.71	Annual Cost of Debt
4	4.84%	Weighted Average Cost of Debt
5	\$60,565,473.01	Total Long-Term Debt
6	\$3,138,551.08	Short-Term Debt
7	\$136,922,408.82	Total Capital using only Long-Term Outstanding Debt
8	\$76,356,935.81	Equity
9	55.77%	Equity Ratio of Capital Structure
10	55.00%	Adjusted Equity Ratio
11	45.00%	Adjusted Debt Ratio

### SOURCES

Line 1	Exhibit DHC-2: Column D, Line 20
Line 2	Exhibit DHC-2: Column D, Line 19 = Column H, Line 7
Line 3	Exhibit DHC-2: Column G, Line 19
Line 4	Exhibit DHC-2: Column F, Line 19 = Exhibit DHC-1: Line 3 ÷ Line 2
Line 5	Exhibit DHC-2: Column F, Line 7
Line 6	Exhibit DHC-2: Column G, Line 7 = Exhibit DHC-1: Line 2 - Line 5
Line 7	Exhibit DHC 1: Line 1 - Line 6
Line 8	Exhibit DHC-2: Column D, Line 10
Line 9	Exhibit DHC-1: Line 8 ÷ Line 7
Line 10	Risk Adjustment
Line 11	= 1 - (Exhibit DHC-1, Line 10)

Palmetto Utilities, Inc.  
Docket No. 2017-228-S

Office of Regulatory Staff  
Utility Rates Request #1

Line/Column	A	B	C	D	E	F	G	H
1				<b>Amount</b>		<b>Outstanding Principal as of March 31, 2017</b>		
2	<b>Long-term Debt Issuance</b>	<b>Maturity Date</b>	<b>Interest Rate</b>	<b>Of Issuance</b>	<b>Net Proceeds</b>	<b>Long-Term</b>	<b>Short-Term</b>	<b>Total</b>
3	Bank of America Term Loan	6/19/2020	one month LIBOR plus 3%	41,847,312.00	41,494,546.67	29,843,766.56	3,138,551.08	32,982,317.64
4	Security Federal Term Loan	4/19/2027	3%	1,115,401.45	1,115,401.45	1,115,401.45	-	1,115,401.45
5	Notes			42,962,713.45	42,609,948.12	30,959,168.01	3,138,551.08	34,097,719.09
6	Advances from Ni Pacolet Milliken Utilities	5%		29,606,305.00	29,606,305.00	29,606,305.00	-	29,606,305.00
7	Total debt			72,569,018.45	72,216,253.12	60,565,473.01	3,138,551.08	63,704,024.09

**COST OF CAPITAL CALCULATION-COMBINED PUI AND PRC**

	<u>Capital</u>	<u>% to Total</u>	<u>Rate</u>	<u>Annual Cost</u>	
<b>EQUITY</b>	76,356,935.81	54.52%	9.75%		5.32%
<b>DEBT</b>					
Bank of America	32,982,317.64		one month LIBOR plus 3%	1,246,916.31	Varies Based on LIBOR
Bank of America-SWAP	-			176,246.10	
Amort of Debt Expense	-			134,753.34	
Bank of America-Revolver-Unused Commitment Fees	-			8,996.67	
First Security Federal	1,115,401.45		3.00%	33,462.04	
Subtotal Notes	34,097,719.09				
Advances from PME	29,606,305.00		5.00%	1,480,315.25	
<b>DEBT</b>	63,704,024.09	45.48%	4.84%	3,080,689.71	2.20%
<b>TOTAL CAPITAL</b>	140,060,959.90	100.00%			<b>7.51%</b>